



STARTing Line



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News about START, Louisiana's tax-advantaged college savings program

Sweeping enhancements to START enacted by Legislature

T

he Louisiana Legislature has made sweeping changes to the state's college savings program with the passage of Senate Bill 690, authored by Sen. Fred Hoyt, Democrat of Abbeville. The bill,

which was signed into law as Act 332 on June 6, 2001, will enhance the benefits of the Student Tuition Assistance and Revenue Trust (START) Saving Program and enable any benefactor to open an account for the purpose of assisting a student, the intended beneficiary, in paying for their college education. The enhancements contained in the bill come on the heels of recent changes in federal tax law that will make earnings on program savings exempt from federal tax.

Originally, a START account could only be opened by a parent, grandparent, legal guardian, a person claiming the beneficiary on their federal income tax return, or an independent student who named himself as the beneficiary. The new law will now permit accounts to be opened by anyone who wishes to assist a designated beneficiary in paying for their college education, including relatives, employers and other benefactors. Eligible account owners will be categorized as follows:

Category I - Original Class: Parents, grandparents, court-ordered custodians, persons claiming the beneficiary as a dependent on their federal income tax return, and independent students, if, at

the time of the agreement, either the account owner or beneficiary is a resident of the state.

Category II - Members of Family: A person or persons determined by the administering agency to be a member of

ranging from 14 percent to 2 percent and determined by the account owner's prior year income. Owners of Category III accounts will receive state contributions that match 2 percent of annual deposits. For example: If an employer opens a

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the family of the beneficiary and, at the time of the agreement, the beneficiary is a resident of the state. Members of the family include adults related to the beneficiary as brothers, sisters, aunts, uncles, spouses, in-laws, step-parents and step-siblings.

Category III - Other Persons: Any other person or juridical entity and, at the time of the agreement, the beneficiary is a resident of the state.

Category IV - Other Persons/Non-Resident Beneficiary: Any other person or juridical entity who, at the time of the agreement, is a resident of the state and the beneficiary is not a resident of the state.

In addition to regular earnings on investments, owners whose accounts are in Categories I and II will receive a contribution from the state to match a percentage of their annual deposits,

Category III account for the benefit of an employee's child, that account will receive an annual state contribution that will match 2 percent of deposits made by the employer during the year. Owners of Category IV accounts are not entitled to state matching contributions; however, earnings on their investments will be tax-exempt and the owner may deduct up to \$2,400 per year, per account from their Louisiana taxable income.

Previously, START account owners were offered tax advantages in several forms, one of which was the ability to deduct the equivalent of their annual deposits in a START account from that year's state taxable income, up to a maximum of \$2,400 per account. The new law will benefit families who cannot take full advantage of this tax benefit every year, by allowing the owner who claims

☐ *Continued on Page 2*

Legislative changes

CONTINUED FROM PAGE 1

less than the maximum \$2,400 per year to carry the difference forward to subsequent years. For example: During the 2002-2003 tax year, if an account owner deposited only \$2,000, the account owner could roll the remaining \$400 of their deductible allowance for that year into the next year. This would allow for a total deduction of up to \$2,800 in tax year 2003-2004.

The state's contributions to an account will no longer be restricted to the payment of tuition expenses and can be used to pay any qualified higher education expenses. In recognition of this change, the state's matching contribution, formerly called Tuition Assistance Grants (TAGS), have been renamed "earnings enhancements." By permitting earnings enhancements to pay expenses other than tuition, more families may qualify for federal educational tax credits (HOPE and Lifetime Learning Credits).

Other program enhancements contained in the legislation include: accounts receiving annual deposits of less than \$100 are now eligible for earnings enhancements; and, the calculation for earnings enhancements will now be based on the account owner's adjusted gross income reported for the previous year, which permits earnings enhancements to be allocated to accounts sooner and to earn additional interest.

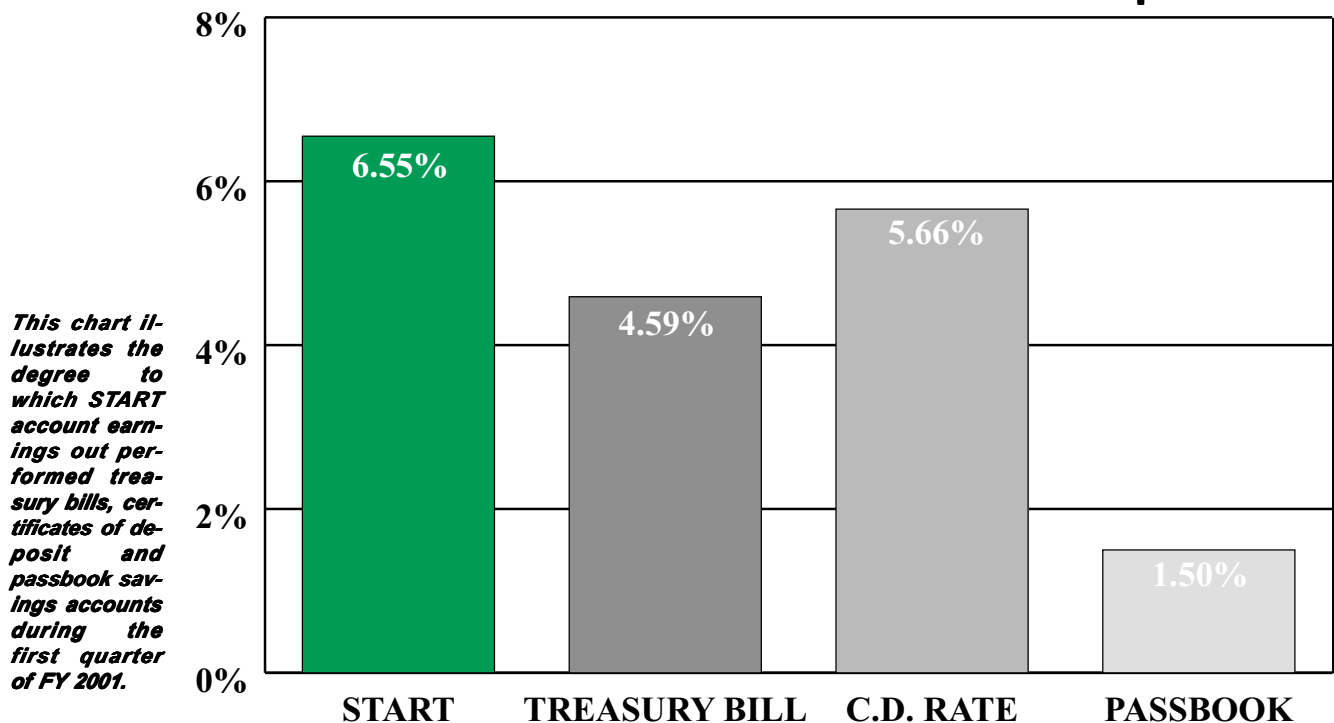
In addition, SB 690 authorizes the Louisiana Tuition Trust Authority (LATTA), the administering agency for START, to create other investment options that will be made available to all classifications of accounts. One option will limit investments to low-risk securities that provide a stable, fixed return and other options will permit investments in stocks and other securities that have market risk, but which offer the potential for greater returns over time. The redemption value of accounts invested

in low-risk securities will be guaranteed. However, those investment options that include market risk will not be eligible for state-funded earnings enhancements, nor would investments (principal and earnings) be guaranteed.

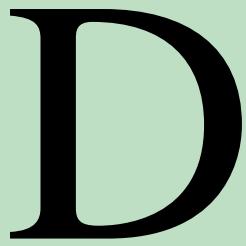


Sen. Fred Hoyt, D-Abbeville, author of SB 690, which created sweeping changes to the START Saving Program resulting in wider opportunities for participation and further tax advantages.

First Quarter 2001 Benchmark Comparison



Congress eliminates tax on earnings



During the same week that the Louisiana Legislature completed action on Senate Bill 690, which became Act 332 on June 6,

the U.S. Congress agreed upon revisions to the federal tax code that governs qualified tuition programs, such as Louisiana's START Saving Program.

As part of a \$1.35 trillion package of tax cuts spanning the next 10 years, the U.S. Congress passed HR 1836, the Economic Growth and Tax Relief Reconciliation Act of 2001, which eliminates taxes on the earnings portion of disbursements made from Louisiana's START Saving Program. Previously, earnings from contributions made to qualified tuition programs were exempt from state tax and federal tax was deferred until earnings were disbursed. Upon disbursement,

the earned interest portion of the disbursement was federally taxed at the beneficiary's usually lower rate. The new federal legislation excludes the earnings portion of a disbursement from gross taxable income, to the extent that the disbursement is used to pay for qualified higher education expenses.

The final version of HR 1836 includes the following additional enhancements to Louisiana's START Saving Program and to other qualified state-sponsored tuition programs:

- 1) Expands the amount of room and board expenses that may be paid from a qualified tuition program.
- 2) Provides for transfers of credits, or "rollovers," from one qualified tuition program to another qualified tuition program for the benefit of the beneficiary, limiting such rollovers to one per 12-month period.
- 3) Revises the definition of "member of family" to include first cousins.
- 4) Modifies the definition of qualified

higher education expenses to include expenses of a special needs beneficiary that are necessary in connection with his or her enrollment or attendance at the eligible education institution.

All provisions in the federal bill relating to qualified tuition programs were either suggested or endorsed by the National Association of State Treasurers (NAST) and the College Savings Plan Network (CSPN), of which Louisiana is a member. The majority of the provisions will be effective for taxable years after Dec. 31, 2001.

The LATTA is now reviewing these new state and federal bills and planning for their timely and effective implementation. To obtain information about the START Saving Program or to apply for an account, visit the START Web site at www.osfa.state.la.us or call the Office of Student Financial Assistance at (800) 259-5626.



START payroll deduction – is your employer participating?



One of the many advantages of the START Saving Program is the convenient ways it offers families to contribute to their accounts. Once an account is opened, the account owner can make contributions to the account through **payroll deduction** — one of the easiest ways to contribute. With contributions as low as \$10 per month, the account owner can save for his/her child's education.

If you are a START account owner or would like to open a START account, please contact your payroll department to see if your company would like to offer this benefit to its employees. If so, ask your payroll supervisor to please contact the START Saving Program office at (800) 259-5626. The START staff welcomes the opportunity to make an in-person presentation of program benefits at your place of business.



NOTICE TO ACCOUNT OWNERS:

START account numbers are the Social Security Numbers of the account owner followed by a two-digit number assigned to the beneficiary. This account number — not the beneficiary's Social Security Number — must be recorded on all payments and correspondence concerning the account.

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